

Message Text

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ACTION EUR-10

INFO OCT-01 SS-14 ISO-00 NEA-06 NSC-10 NSCE-00 EB-03

COME-00 TRSE-00 OMB-01 L-02 SAM-01 SPC-01 H-01 PA-01

PRS-01 IO-03 FEA-01 RSC-01 DRC-01 (ISO) W

----- 032364

R 231103Z FEB 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 0640

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 02950

LIMDIS

DEPARTMENT PASS TREASURY

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: CONVERSATION WITH FINANCE MINISTER SCHMIDT

1. SUMMARY. IN A WIDE-RANGING CONVERSATION WITH ME
FINANCE MINISTER SCHMIDT DISCUSSED THE FRENCH POSITION
AT THE WASHINGTON ENERGY CONFERENCE, PROSPECTS FOR THE
EC, THE GERMAN FISCAL POSITION, CREDITS TO THE EAST
AND INTERNATIONAL MONETARY REFORM. END SUMMARY.

2. I CALLED ON FINANCE MINISTER SCHMIDT ON FEBRUARY 22
FOR ONE OF OUR REGULAR EXCHANGES OF VIEWS. SCHMIDT
OPENED THE CONVERSATION WITH COMMENTS ON THE
WASHINGTON ENERGY CONFERENCE AND THE STATE OF THE
EC. CONCERNING THE FRENCH BEHAVIOR AT WASHINGTON,
SCHMIDT SAID THAT HE ASSESSED THIS MORE AS A TACTICAL
BLUNDER BY THE FRENCH RATHER THAN AS SUCH A
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FUNDAMENTAL CHANGE OF FRENCH POLICY THAT IT WOULD

HAVE TO LEAD TO REASSESSMENT BY GERMANY OF ITS EC POLICY. THIS DID NOT MEAN THAT THE EC WAS IN FINE SHAPE. ON THE CONTRARY, WITH FRENCH DEPARTURE FROM THE SNAKE AND ALL ELSE THAT HAD HAPPENED, MONETARY AND ECONOMIC UNION WAS EFFECTIVELY STALLED. HE ASSUMED THAT THE EC WOULD MUDDLE ALONG WITHOUT MUCH PROGRESS FOR THE TIME BEING AND HIS MAIN CONCERN WAS TO INSURE THAT IT WOULD NOT COST GERMANY TOO MUCH MONEY. IN THIS CONNECTION HE CHARACTERIZED THE COMMISSION'S PLANS ON REGIONAL POLICY AS COMPLETELY UNACCEPTABLE SINCE THEY WERE SIMPLY DESIGNED TO BUY BRITISH ACCEPTANCE OF THE EC WITH GERMAN MONEY. GERMANY'S NET CONTRIBUTION TO REGIONAL POLICY UNDER THEM WOULD HAVE BEEN TEN TIMES THAT OF FRANCE. HE WAS GLAD REGIONAL POLICY WAS STALLED AND HOPED IT WOULD REMAIN SO. THE EC COUNCIL MIGHT THIS SPRING PROCLAIM A MOVE TO THE SECOND STAGE OF MONETARY UNION BUT THERE WOULD BE VERY LITTLE SUBSTANCE BEHIND THIS.

3. CONCERNING THE REPERCUSSIONS OF THE HIGHER OIL PRICES, SCHMIDT SAID THAT HE FELT THAT GERMANY AND THE US WITH THEIR STRONG BALANCE OF PAYMENTS POSITIONS HAD RELATIVELY LITTLE TO FEAR. THE OTHER DEVELOPED COUNTRIES SHOULD HAVE NO REAL DIFFICULTIES IN FINDING FINANCING. BUT SOME OF THE LARGE LDC'S WITH SOME INDUSTRY, SUCH AS INDIA AND PAKISTAN, WOULD FACE SERIOUS PROBLEMS.

4. SCHMIDT THEN LAUNCHED INTO A DISCUSSION OF THE POOR STATE OF GERMAN FISCAL AFFAIRS WITH HUGE UPCOMING DEFICITS IN THE PUBLIC BUDGETS, VERY NARROW CAPITAL MARKETS AND GREAT DIFFICULTIES FOR THE GOVERNMENT IN RAISING MONEY ON THEM WITHOUT DRIVING INTEREST RATES THROUGH THE SKY. HE DREW A SHARP DISTINCTION BETWEEN GERMANY'S GOOD BALANCE OF PAYMENTS POSITION AND ITS VERY PRECARIOUS FISCAL POSITION. HE SAID THAT HE HAD GREAT DIFFICULTIES IN MAKING FOREIGNERS AND GERMANS, INCLUDING BRANDT, REALIZE THIS AND TO WARD OFF EXCESSIVE CLAIMS FROM EVERYONE. FROM HIS CONFIDENTIAL

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POINT OF VIEW ALL OF THESE CLAIMS HAD TO BE RESISTED AND THAT IN NO WAY MEANT THAT HE OPPOSED THE POLITICAL AIMS BEHIND THEM. BUT IT WAS ESSENTIAL TO PRESERVE GERMANY'S FISCAL INTEGRITY AND HE WAS DETERMINED TO DO SO WHETHER IT INVOLVED EC REGIONAL POLICY, CREDITS TO THE EAST, OR OFFSET WITH THE US. I COMMENTED THAT IN HIS SHORT TIME IN OFFICE HE HAD BECOME A PROFESSIONAL FINANCE MINISTER. HE LAUGHED.

5. CONCERNING CREDITS TO RUSSIA, HE INDICATED THAT HE WAS MOST STRONGLY OPPOSED TO LARGE GOVERNMENT SUBSIDIES. HIS AIM, ON THE CONTRARY, WAS TO BRING ABOUT SOME HARMONIZATION TO PREVENT COMPETITION IN THIS FIELD BETWEEN THE WESTERN NATIONS AND PARTIC-

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AMEMBASSY BRUSSELS

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 02950

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ULARLY GERMANY AND THE US. HE HOPED THAT THE SMALL RECENT MEETING IN BONN ON THIS SUBJECT COULD BE FOLLOWED UP SOON (AND, HE IMPLIED, AT A HIGHER LEVEL) AND STRESSED THAT HE FELT THE US, TOO, WAS IN MANY WAYS EXTENDING OR OFFERING GREATLY SUBSIDIZED CREDITS TO THE SOVIETS WHICH MADE IT THAT MUCH HARDER FOR HIM TO RESIST PRESSURE FOR SUBSIDIES IN GERMANY. HE REPEATEDLY INDICATED THAT HE WAS PREPARED TO STRONGLY RESIST GERMAN CREDIT SUBSIDIES AND SAID THAT HE WOULD RESIGN RATHER THAN ACQUIESCE IN GERMAN CREDIT TO THE SOVIETS AT 2 1/2 OR 5 PERCENT INTEREST. HE

MADE A DISTINCTION, HOWEVER, IN THE CASE OF CREDITS TO POLAND AND YUGOSLAVIA WHERE HE FELT SUBSIDIES NECESSARY AND WARRANTED BY SPECIAL CIRCUMSTANCES SUCH AS THE POLISH PROBLEMS IN ALLOWING LARGE NUMBERS OF SKILLED ETHNIC GERMANS TO LEAVE THE COUNTRY.

6. CONCERNING INTERNATIONAL MONETARY REFORM, HE
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FELT IT WAS DEAD FOR THE TIME BEING. HE STRESSED THAT HE PERSONALLY WAS AN ADHERENT OF FIXED EXCHANGE RATES, BUT AT THE MOMENT NO ONE COULD AFFORD A RETURN TO THEM. CONCERNING THE PRESENT DOLLAR/DM EXCHANGE RATE, SCHMIDT SAID THAT IT PLEASED HIM AND PRESUMABLY ALSO THE US. HE WANTED AN EXPENSIVE DM TO MAKE HIS IMPORTS CHEAPER AND THE US WANTED A CHEAP DOLLAR TO HELP PROMOTE ITS EXPORTS.
HILLENBRAND

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